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FRAME ECONOMIC

FRG ECONOMY: SPRING REPORT OF THE FIVE ECONOMIC INSTITUTES

SUMMARY

1. SPRING REPORT OF THE FIVE LEADING ECONOMIC INSTITUTES, RELEASED TODAY, FORECASTS GROWTH IN REAL GNP OF 2 PER CENT THIS YEAR. HEAVY CRITICISM OF THE TAX REFORM PROGRAMME AND THE GOVERNMENT'S HANDLING OF THE ECONOMY.

DETAIL

2. THE FIVE INSTITUTES' SPRING REPORT FORECASTS GROWTH IN REAL GNP OF 2 PER CENT THIS YEAR SLOWING TO 1.25 PER CENT IN 1989. GROWTH IN DOMESTIC DEMAND IS EXPECTED TO SLOW TO 2.5 PER CENT THIS YEAR AND 1.25 PER CENT NEXT YEAR. INFLATION WILL REACH 1 PER CENT THIS YEAR CLIMBING TO 2.5 PER CENT IN 1989. THE NUMBER IN EMPLOYMENT IS EXPECTED TO CONTINUE TO INCREASE, BY 70,000 TO 22.8 MILLION NEXT YEAR. DESPITE THIS UNEMPLOYMENT WILL ALSO RISE TO 2.275 MILLION THIS YEAR AND 2.3 MILLION IN 1989. THE REPORT PREDICTS THAT THE BALANCE OF PAYMENTS SURPLUS WILL FALL TO DM 75 BILLION THIS YEAR AND DM 70 BILLION IN 1989. IT FORECASTS A FEDERAL BUDGET DEFICIT OF DM 47.5 BILLION IN 1988 FALLING TO DM 25 BILLION IN 1989.

3. THE INSTITUTES CRITICISE THE GOVERNMENT FOR FAILING TO FULFIL ITS UNDERTAKING TO IMPROVE THE ECONOMY. THE REPORT SAYS THAT THE TAX REFORM PROGRAMME HAS NOT ACHIEVED WHAT WAS INTENDED AND IT MAKES THE BY NOW ALMOST RITUAL CALL FOR THE TAX CUTS PLANNED FOR 1990 TO BE BROUGHT FORWARD TO NEXT YEAR. THE INSTITUTES VOICE CONCERN ABOUT CAPITAL INVESTMENT WHICH THEY SAY HAS WEAKENED CONSIDERABLY BECAUSE ECONOMIC CONDITIONS ARE NOT FAVOURABLE ENOUGH TO ENCOURAGE INDUSTRY TO INVEST.

4. IN ITS INITIAL RESPONSE THE GOVERNMENT HAS DISMISSED THE CRITICISM AND POINTED TO STABLE PRICES AND INCREASED REAL INCOMES AS

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MEASURES OF ITS SUCCESS WITH THE ECONOMY. EVEN THE UNANIMOUS
DISAPPROVAL OF THE INSTITUTES AND THEIR WARNING OF VIRTUAL
STAGNATION NEXT YEAR IS UNLIKELY TO PERSUADE THE GOVERNMENT TO
CHANGE ITS FISCAL POLICY.

5. FCO PLEASE ADVANCE TO BROADBENT (ECONOMIC ADVISERS), ARROWSMITH
(BANK OF ENGLAND) AND MATTHEWS (TREASURY).

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